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JANUARY/FEBRUARY 1997

DIRECT LOAN SERVICING CONTRACTS AWARDED

The Department of Education, as loan servicer for the Direct Loan Program, has awarded contracts to three new contractors. The additional contracts will ensure that we have ample capacity for customer service and computer system support as Direct Loan volume continues to increase. All of a borrower's loans will continue to be serviced at one site. The new contractors (listed below) will begin providing services in early July 1997 and continue through September 1997 with options to renew through September 2003.

The three new servicers join the current Direct Loans servicing team, **Computer Data Systems Inc. (CDSI)/AFSA Data Corp.** CDSI/AFSA will continue to service loans currently in their portfolio. CDSI's contract contains options through September 2000. The new contractors are:

Education Loan Servicing Center (ELSC) teamed with C&A. This team will provide loan servicing through its Indianapolis, Indiana facility.

Raytheon E-Systems teamed with Great Lakes Higher Education Corporation (GLHEC). This team will provide Direct Loan servicing through a facility in Madison, Wisconsin.

Electronic Data Systems (EDS) teamed with the Kentucky Higher Education Student Loan Corporation (KHESLC). This team will provide Direct Loan servicing through a facility in Louisville, Kentucky.

LOAN ORIGATION TRANSITION

On March 3, 1997, Electronic Data Systems (EDS), under the direction of the U.S. Department of Education, will begin managing loan origination and reconciliation at the Loan Origination Center (LOC) in Montgomery, Alabama. There will be a transition period (from February 14, 1997, through March 2, 1997) between the time the LOC comes on line and the origination functions at the current Utica contractor, Computer Data Systems Inc. (CDSI), are transferred. During this time, we want you to be fully informed and prepared as we begin implementing the new system. You will be receiving additional Direct Loan Bulletins that will provide comprehensive, up-to-date, and timely information on the transition.

The transition from the current contractor, CDSI, to EDS was postponed for a year because we were not satisfied that the new system was sufficiently developed and tested. We have spent the last year completing the development and testing of the new system. We are confident that the new loan origination system and processes will be implemented successfully and will meet the high performance standards we have set for it.

EDS, under the Department's guidance, has taken every precaution to guarantee that Direct Loans will continue to be processed and serviced efficiently. You can feel confident that EDS staff has a thorough understanding of Direct Loan origination and reconciliation and should plan to continue business as usual. The LOC, under EDS's management, should be viewed as the same system schools have used for the past three years. In addition, during the first two weeks of operation, the Utica Center's school relations staff will work alongside the Montgomery LOC school relations staff to ensure a smooth cutover for loan origination and reconciliation activities.

On page 3 of this newsletter is a table that provides detailed instructions about how you should proceed and what to expect before, during, and after the transition. Also, for your convenience, information about how to get in touch with staff at the new LOC, including the addresses and telephone numbers, is on page 4.

DIRECT LOAN TASK FORCE CHANGES LEADERSHIP

In December 1996, Diane Sedicum Voigt retired as Chair of the Direct Loan Task Force. In a final message to the Task Force Diane reminded us that the federal government was the “only place you can work where you can positively affect the lives of virtually millions of people” and “Student Financial Aid is an area where this is especially true.” Her passion to “put the customer first,” leadership, and expert knowledge of the Department’s internal operations and systems helped to make direct lending one of the Department’s most successful new initiatives.

We plan to continue to build on this success under the capable leadership of Joe McCormick, the Task Force’s new Chair, and Margaret White, the Deputy Chair. Joe’s 29 years of experience coupled with Marge’s experience with Direct Loans, since its inception, will be central to these efforts. Marge will focus on overall management, serving as the “inside” operations lead and coordinating cross-functional issues. Joe will concentrate on Direct Loan outreach and future enhancements to the Program.

BEST PRACTICES

If you’ve had a problem with hardware, software or other Direct Loan systems and developed a unique solution to resolve it, we would like to share your expert knowledge with other Direct Loans schools. We hope to include “Best Practices” in a regular column in the newsletter. Send your suggestions via the Internet to Joyce_Rice@ed.gov or mail them to the Direct Loan Task Force at the address on the back of this newsletter.

POLICY UPDATE

Final Student Financial Assistance Program Regulations (Effective date for the regulations is July 1, 1997)

Record Retention Regulations

Published November 27, 1996.

These regulations reduce record retention requirements from five to three years. In addition, the regulations consolidate and clarify existing record retention regulations and reduce administrative burden on institutions.

Financial Responsibility Regulations

Published November 29, 1996

The Secretary has **delayed** publication of certain provisions that would have established new financial responsibility standards. The Secretary published a notice in the *Federal Register* on December 18, 1996, reopening the comment period on financial responsibility standards. Comments must be received on or before February 18, 1997.

The regulations published on November 29, 1996:

- ✓ revise refund reserve performance standard;
- ✓ include foreign schools financial responsibility standards; and
- ✓ remove the requirement for additional submission of an audited financial statement.

Cash Management Regulations

Published November 29, 1996.

These regulations:

- ✓ establish a payment period definition that applies to all title IV programs;
- ✓ change the definition of "disbursement;"
- ✓ define "just-in-time" payment method;
- ✓ require notice to borrowers regarding their right to cancel a disbursement;
- ✓ clarify the timeframe for early disbursements; and
- ✓ establish, as a standard of administrative capability, that an institution use electronic services that the Department provides at no substantial charge to the institution.

TIP FOR USING NSLDS TO DETERMINE IF A STUDENT HAS UNDISBURSED LOAN FUNDS

A school can use the NSLDS Financial Aid History page of the SAR or the NSLDS Financial Aid Transcript to determine if a student has undisbursed loan funds available. The school can calculate the amount of the undisbursed loan funds by computing the difference between the “Loan Amount” and “Outstanding Balance” data fields for the most recent loans listed.

LOAN ORIGATION TRANSITION PLAN AND SCHEDULE

During the transition period there will be no interruptions in the flow of funds to schools. Schools may continue to make drawdowns. However, there will be an interruption in the receipt and processing of electronic transactions, promissory notes, and endorser forms. We will temporarily shut down manual processing of hard copy forms such as promissory notes and endorser forms on February 14. From February 21 through March 2, we will temporarily shut down electronic loan origination processing to move loan origination and reconciliation from the current contractor in Utica to the Montgomery LOC.

We encourage schools to transmit as many records and PNotes as possible to the Utica Center prior to the temporary shutdown. Because the Utica Center will not be able to process 1997-98 transactions, we ask that schools hold those transactions until after shutdown of origination functions at Utica on February 21. (NCS will distribute the 1997-98 EDEExpress software starting mid-March.) However, EDS will be ready to accept 1997-98 records on March 3 from schools that use custom software. The table below explains how transactions will be handled during the transition and what to expect after the transition.

WORK IN PROGRESS	TRANSITION PLAN
Loan Origination and Disbursement Records	Loan origination and disbursement records will be processed in Utica through February 21, 1997 (last "get"). The LOC in Montgomery will begin loan origination processing on March 3, 1997 (first "put" on March 4, 1997).
Promissory Notes	Promissory notes received in Utica by February 14, 1997, will be imaged and indexed. Schools should transmit promissory notes to the LOC in Montgomery after this date. Promissory notes and other documents imaged and stored on the Utica system will be electronically transferred to the LOC. All promissory notes received but not processed by the Utica Center will be transferred overnight to the LOC in Montgomery. Utica will stop printing and mailing promissory notes to borrowers on February 21, 1997. The Montgomery LOC will begin processing promissory notes upon receipt. Processing will be completed March 3, 1997.
Credit Checks	The Utica Center will initiate credit checks through February 18, 1997. Beginning March 3, 1997, the LOC in Montgomery will take over the credit check process.
PLUS Endorser Forms	PLUS endorser forms that have not been processed by the Utica Center by February 14, 1997, will be shipped overnight to the LOC in Montgomery to be processed.
Drawdowns	There will be no interruptions in the flow of Direct Loan funds during this period. The Utica Center will draw down funds for Standard and Option 1 schools, before the cutover, to cover all anticipated disbursements through March 3, 1997.
Excess Cash	Excess cash will be handled by the Utica Center through February 21, 1997. Beginning February 22, 1997 the Montgomery LOC will accept and process excess cash transmittals received from schools forwarded from the Utica Center.
Reconciliation	The final processing of reconciliation records (final "get") at the Utica Center will be February 21, 1997 (final "put" will be on February 25, 1997). The Montgomery LOC will start processing reconciliation records not later than March 3, 1997.

OFFICIAL BUSINESS

Penalty for Private Use

\$300

FIRST CLASS

HOW TO GET IN TOUCH WITH THE MONTGOMERY LOC

Post Office boxes are currently open in Montgomery, Alabama, but mail received at the LOC will not be processed completely until March 3. On the March 3 cutover, you can contact School Relations Representatives staff in Montgomery on the current school relations number, 1-800-848-0978, from 8:00 a.m. to 8:00 p.m. EST. (The number will be transferred from the Utica Center to the Montgomery LOC at cut-over.)

Applicants who call the current borrower services telephone number will be asked if their question relates to origination; if so, they will be transferred to the LOC in Montgomery. The Utica Center will include the new telephone number and address for applicant services at the Montgomery LOC, in all applicant letters, beginning early February 1997.

ABOUT OUR NEWSLETTER

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Copies are available free of charge upon request from the Direct Loan Servicing Center, School Relations Division, 1-800-848-0978 OR the newsletter may be downloaded from the Internet at:

<http://www.ed.gov/offices/OPE/DirectLoan/>

ADDRESSES AND PHONE NUMBERS FOR DIRECT LOAN SERVICES MONTGOMERY, ALABAMA

Service	P.O. Box	Zip Code	Phone Number
School Relations	5692	36103-5692	800-848-0978
Applicant Services	5691	36103-5691	800-557-7394
Consolidation	1723	36102-1723	800-557-7392
TDD			800-557-7395
Fax			800-557-7396
Excess Cash Return	2011	36102-2011	
Compass Bank Acct. #			707 2672 6
ABA			0620 0118 6

OVERNIGHT/EXPRESS MAIL DELIVERY:

U.S. Department of Education
Loan Origination Center
474 South Court Street, Suite 400
Montgomery, AL 36104-4102

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